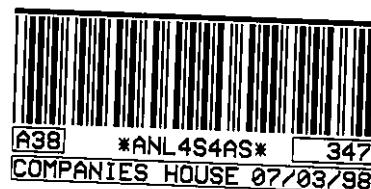


ARTHUR ANDERSEN

Nitto World Co., Limited

Financial statements for the year ended 30 June 1997
together with directors' and auditors' reports

Registered number: 2124389



Directors' report

For the year ended 30 June 1997

The directors present their report on the affairs of the company together with the financial statements and auditors' report for the year ended 30 June 1997.

Principal activity and business review

The principal activity of the company is the ownership and management of the Turnberry Hotel and Golf Courses and Spa.

The company recorded an operating profit in the year of £1,092,773 (1996 - £1,099,779).

Results and dividends

The turnover for the year was £10,027,131 (1996 - £8,763,212) and the loss on ordinary activities before and after taxation was £1,212,385 (1996 - £1,588,501).

No dividend is proposed (1996 - £Nil).

Directors and their interests

The directors of the company during the year were:

T. Niino
H. Matsuura
K. Nakamura
T. Matsuura
K. Ohtsuka
C. J. Rouse
M. Chikubu
A. McMillan (resigned 31 October 1996)

No director had a beneficial interest in the shares of the company at any time during the year.

Directors' report (continued)

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of its profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.


The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution will be submitted at the annual general meeting to reappoint Arthur Andersen, Chartered Accountants, as auditors for the ensuing year.

41 Vine Street
London
EC2N 2AA

By order of the Board,



Director

15 December 1997

Auditors' report

Glasgow

To the Shareholders of Nitto World Co., Limited:

We have audited the financial statements on pages 4 to 20 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 2, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We draw attention to the company's net liability position of £6,812,440 as at 30 June 1997. The company has received a letter confirming the continuation of financial support from an intermediate holding company, Nitto Kogyo Co., Limited to sustain its future operations. However, we have been unable to obtain the necessary financial information to assess the financial position of Nitto Kogyo Co., Limited and accordingly we are unable to form a view on whether it has the resources to provide the necessary financial support. In the event that Nitto Kogyo Co., Limited is unable to provide any financial assistance required by the company the going concern basis may not be applicable and adjustments may be necessary to write down fixed assets to their recoverable amounts and to provide for any additional liabilities that may arise.

Opinion

Except for any adjustments that may arise from Nitto Kogyo Co., Limited being unable to provide the necessary financial support to the company, in our opinion the financial statements give a true and fair view of the state of the affairs of the company at 30 June 1997 and of its loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors

199 St Vincent Street

Glasgow G2 5QD

15 December 1997

Profit and loss account

For the year ended 30 June 1997

	Notes	1997 £	1996 £
Turnover - continuing operations	2	10,027,131	8,763,212
Cost of sales		(5,505,298)	(4,994,923)
Gross profit		4,521,833	3,768,289
Other operating expenses (net)	3	(3,429,060)	(2,668,510)
Operating profit - continuing operations		1,092,773	1,099,779
Investment income	4	162,495	125,079
Interest payable and similar charges	5	(2,467,653)	(2,813,359)
Loss on ordinary activities before and after taxation	6,8&17	(1,212,385)	(1,588,501)

The accompanying notes are an integral part of this profit and loss account.

The company has no recognised gains or losses other than the loss for each financial year.

Balance sheet

30 June 1997

	Notes	1997 £	1996 £
Fixed assets			
Tangible assets	9	33,781,786	33,781,157
Investments	10	650	650
		<u>33,782,436</u>	<u>33,781,807</u>
Current assets			
Stocks	11	570,593	515,923
Debtors: Amounts falling due within one year	12	1,109,192	2,402,819
Debtors: Amounts falling due after more than one year	12	787,650	627,300
Cash at bank and in hand		1,701,848	1,200,145
		<u>4,169,283</u>	<u>4,746,187</u>
Creditors: Amounts falling due within one year	13	<u>(44,678,083)</u>	<u>(44,039,849)</u>
Net current liabilities		<u>(40,508,800)</u>	<u>(39,293,662)</u>
Total assets less current liabilities		<u>(6,726,364)</u>	<u>(5,511,855)</u>
Creditors: Amounts falling due after more than one year	14	<u>(86,076)</u>	<u>(88,200)</u>
Net liabilities		<u>(6,812,440)</u>	<u>(5,600,055)</u>
Capital and reserves			
Equity share capital	16	8,900,000	8,900,000
Share premium account	17	9,757,890	9,757,890
Profit and loss account	17	(25,470,330)	(24,257,945)
Total capital absorbed		<u>(6,812,440)</u>	<u>(5,600,055)</u>

Signed on behalf of the Board


Director

15 December 1997

The accompanying notes are an integral part of this balance sheet.

Cash flow statement

For the year ended 30 June 1997

	Notes	1997 £	1996 (restated) £
Net cash inflow from operating activities	18(a)	2,483,494	1,567,403
Returns on investments and servicing of finance			
Interest received		114,709	86,636
Interest paid		(1,878,483)	(2,479,695)
Net cash outflow from returns on investments and servicing of finance		(1,763,774)	(2,393,059)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(244,116)	(110,909)
Sale of tangible fixed assets		-	22,500
Net cash outflow from capital expenditure and financial investment		(244,116)	(88,409)
Net cash inflow/(outflow) before financing		475,604	(914,065)
Financing			
New bank loans		-	9,042,538
Repayment of bank loans		(10,759,935)	(11,142,538)
New intercompany loans payable		10,808,525	3,299,985
Intercompany loans granted		-	(101,354)
Capital element of finance lease repayments		(22,491)	(67,105)
Net cash inflow from financing		26,099	1,031,526
Increase in cash	18 (b),(c)	501,703	117,461

The accompanying notes are an integral part of this cash flow statement.

Prior year comparatives have been restated to comply with FRS 1 (Revised).

Notes to financial statements

30 June 1997

1 Statement of accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

a) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The company has elected under Section 229 of the Companies Act 1985 not to consolidate Nitto-Alfred McAlpine Limited as its inclusion is not material for the purpose of giving a true and fair view.

b) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation as set out in note 9.

No depreciation is provided on freehold land and buildings as the directors are of the opinion that given the high level of expenditure on general maintenance, the length of lives and residual values of these buildings are such that no provision for depreciation is required. Depreciation on other tangible fixed assets is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis using the following annual rates which are based on the expected useful economic lives of the assets:

Plant and equipment	5% to 50%
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c) Investments

Fixed asset investments are shown at cost less amounts written off.

d) Stocks

Stocks are stated at the lower of cost and net realisable value.

Notes to financial statements (continued)

1 Statement of accounting policies (continued)

e) *Foreign currency*

Transactions denominated in foreign currencies are recorded in sterling at exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is reported as an exchange gain or loss in the profit and loss account.

f) *Turnover*

Turnover is stated at the invoiced value of goods and services provided, exclusive of VAT and net of discounts granted.

g) *Leases*

Assets acquired under finance leases are initially reported at the fair value of the asset with an equivalent obligation categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Obligations relating to finance leases represent the total of the minimum lease payments outstanding at the date of the balance sheet. Future finance charges are not included. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance.

Rentals under operating leases are charged on a straight-line basis over the lease term. Further information on charges in the year and future commitments is given in note 19.

h) *Taxation*

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the financial statements and by the tax authorities) has been calculated on the liability method.

Deferred tax is provided on timing differences which, in the opinion of the directors, will probably reverse, at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

i) *Pension contributions*

The company operates a defined benefit pension scheme. Pension contributions are charged to the profit and loss account on the basis of spreading the cost of providing pensions over the period of employees' services to the company. Further information on this scheme is provided in note 19.

Notes to financial statements (continued)

2 Segment information

In the opinion of the directors the company has only one market segment and thus no segmental analysis is provided.

3 Other operating expenses (net)

	1997 £	1996 £
Selling and marketing costs	668,761	1,044,678
Administrative expenses	2,653,125	2,421,196
Other income	(37,909)	(111,825)
Loss/(gain) on exchange movements	145,083	(685,539)
	<u>3,429,060</u>	<u>2,668,510</u>

4 Investment income

	1997 £	1996 £
Interest received on loans to other group undertakings	57,343	70,523
Bank interest	105,152	54,556
	<u>162,495</u>	<u>125,079</u>

5 Interest payable and similar charges

	1997 £	1996 £
On loans from other group undertakings		
- repayable within five years, not by instalments	634,749	673,121
On bank loans		
- repayable within five years, not by instalments	1,832,904	2,140,238
	<u>2,467,653</u>	<u>2,813,359</u>

Notes to financial statements (continued)

6 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation for the year is stated after charging/(crediting):

	1997 £	1996 £
Depreciation	243,487	414,760
Auditors' remuneration	22,000	25,000
Staff costs (note 7)	3,238,858	3,026,244
Hire of plant and machinery		
- under operating leases	74,084	18,013
Exchange loss/(gain) arising principally on the translation of loans denominated in foreign currencies	145,083	(685,539)
Gain on sale of fixed assets	-	(22,500)
Intercompany loans receivable written off	223,237	428,914

Fees paid to the auditors for non-audit services provided during the year amounted to £8,000 (1996 - £8,000).

7 Staff costs

Particulars of employees are as shown below:

	1997 £	1996 £
Employee costs during the year amounted to:		
Wages and salaries	2,907,781	2,734,662
Social security costs	219,465	202,582
Other pension costs	111,612	89,000
	<u>3,238,858</u>	<u>3,026,244</u>

The average monthly number of persons employed by the company during the year was as follows:

	1997 Number	1996 Number
Permanent	230	226
Casual	27	31
	<u>257</u>	<u>257</u>

Notes to financial statements (continued)

7 Staff costs (continued)

Remuneration

The remuneration of the directors was as follows:

	1997 £	1996 £
Emoluments	<u>74,972</u>	<u>61,515</u>

Pensions

The number of directors who were members of pension schemes was as follows:

	1997 Number	1996 Number
Defined benefit schemes	<u>1</u>	<u>1</u>

8 Taxation

No charge to corporation tax arises on the results for the year due to trading losses incurred (1996 - £Nil).

Notes to financial statements (continued)

9 Tangible fixed assets

The movement in the year was as follows:

	Freehold land & buildings £	Plant & equipment £	Total £
Cost			
Beginning of year	32,891,090	3,875,856	36,766,946
Additions	118,909	125,207	244,116
Disposals	-	(87,734)	(87,734)
End of year	<u>33,009,999</u>	<u>3,913,329</u>	<u>36,923,328</u>
Depreciation			
Beginning of year	-	2,985,789	2,985,789
Charge	-	243,487	243,487
Disposals	-	(87,734)	(87,734)
End of year	<u>-</u>	<u>3,141,542</u>	<u>3,141,542</u>
Net book value			
End of year	<u>33,009,999</u>	<u>771,787</u>	<u>33,781,786</u>
Beginning of year	<u>32,891,090</u>	<u>890,067</u>	<u>33,781,157</u>

Plant and equipment includes £137,148 (1996 - £179,397) of assets at net book value held under finance leases.

Freehold land and buildings are not depreciated.

Notes to financial statements (continued)

10 Fixed asset investments

The following are included in the net book value of fixed asset investments:

	1997 £	1996 £
Subsidiary undertakings	<u>650</u>	<u>650</u>

The company has investments in the following subsidiary undertaking:

	Country of registration	Principal activity	Description & proportion of shares held
Nitto-Alfred McAlpine Limited	England	Non-trading	65% ordinary share capital

11 Stocks

The following are included in stocks:

	1997 £	1996 £
Glass, crockery and silverware	149,503	136,989
Food and beverage	113,796	102,099
Goods held for resale	245,000	230,915
Other	<u>62,294</u>	<u>45,920</u>
	<u>570,593</u>	<u>515,923</u>

The directors consider that there is no significant difference between the balance sheet value and the replacement cost of stocks at the balance sheet date.

Notes to financial statements (continued)

12 Debtors

The following are included in debtors:

	1997 £	1996 £
Amounts falling due within one year:		
Trade debtors	501,547	733,517
Prepayments and accrued income	171,693	119,316
Amounts due from other group undertakings	433,202	1,516,140
Other debtors	2,750	33,846
	<u>1,109,192</u>	<u>2,402,819</u>
Amounts falling due after more than one year:		
Amounts due from other group undertakings	<u>787,650</u>	<u>627,300</u>

The amounts due from group undertakings, after more than one year, represent loans on which interest is charged at 6% per annum.

Notes to financial statements (continued)

13 Creditors: Amounts falling due within one year

The following amounts are included in creditors falling due within one year:

	1997 £	1996 £
Bank loans	16,461,893	27,221,828
Trade creditors	386,042	376,381
Amounts due to other group undertakings	26,199,186	14,712,852
Obligations under finance leases	46,470	66,837
Accruals and deferred income	1,292,248	1,357,391
Other creditors		
- VAT	292,244	304,560
	<u>44,678,083</u>	<u>44,039,849</u>

14 Creditors: Amounts falling due after more than one year

The following amounts are included in creditors falling due after more than one year:

	1997 £	1996 £
Obligations under finance leases	<u>86,076</u>	<u>88,200</u>

Analysis of borrowings

Borrowings are repayable as follows:

	1997 £	1996 £
Within 1 year		
- loans from other group undertakings	22,308,510	11,499,985
- bank loans	16,461,893	27,221,828
- finance leases	46,470	66,837
Within 1-2 years		
- finance leases	37,835	34,571
Within 2-5 years		
- finance leases	48,241	53,629
	<u>38,902,949</u>	<u>38,876,850</u>

Interest on bank loans is charged between 6.8% and 7.5% per annum.

All of the bank loans are guaranteed by an intermediate holding company, Nitto Kogyo Co., Limited.

Notes to financial statements (continued)

15 Deferred taxation

No deferred taxation has been provided (1996 - £Nil) because the directors have concluded, on the basis of reasonable assumptions and the intentions of management that it is improbable that any liability will crystallise due to significant brought forward tax losses.

16 Equity share capital

	1997 £	1996 £
<i>Authorised</i>		
96,800 ordinary shares of £100 each	<u>9,680,000</u>	<u>9,680,000</u>
<i>Allotted, called-up and fully-paid</i>		
89,000 ordinary shares of £100 each	<u>8,900,000</u>	<u>8,900,000</u>

17 Reserves

Of total reserves shown in the balance sheet, the following amounts are regarded as distributable or otherwise:

	1997 £	1996 £
<i>Non-distributable</i>		
- profit and loss account	(25,470,330)	(24,257,945)
- share premium account	<u>9,757,890</u>	<u>9,757,890</u>
	<u>(15,712,440)</u>	<u>(14,500,055)</u>

The movement in the profit and loss account was as follows:

	1997 £	1996 £
At beginning of year	(24,257,945)	(22,669,444)
Loss for financial year	<u>(1,212,385)</u>	<u>(1,588,501)</u>
At end of year	<u>(25,470,330)</u>	<u>(24,257,945)</u>

Notes to financial statements (continued)

17 Reserves (continued)

Reconciliation of movements in shareholders' funds

	1997 £	1996 £
Loss for financial year	(1,212,385)	(1,588,501)
Net reduction in shareholders' funds	(1,212,385)	(1,588,501)
Opening shareholders' funds	(5,600,055)	(4,011,554)
Closing shareholders' funds	(6,812,440)	(5,600,055)

18 Cash flow statement - supporting analyses

a) Reconciliation of operating loss to net cash inflow from operating activities

	1997 £	1996 £
Operating profit	1,092,773	1,099,779
Depreciation charge	243,487	414,760
Gain on sale of fixed assets	-	(22,500)
Unrealised loss on exchange	(111,034)	(749,935)
(Increase)/decrease in stock	(54,670)	26,993
Decrease in debtors	1,292,097	377,896
Increase in creditors (excluding intercompany loans, bank loans and overdrafts, finance leases and debentures)	20,841	420,410
Net cash inflow from operating activities	2,483,494	1,567,403

b) Reconciliation of net cash flow to movement in net debt

	1997 £	1996 £
Increase in cash	501,703	117,461
New finance leases	(51,527)	(137,367)
Cash inflow changes in debt and lease financing	25,428	105,646
Changes in net debt	475,604	85,740
Net debt at beginning of year	(37,676,705)	(37,762,445)
Net debt at the end of the year	(37,201,101)	(37,676,705)

Notes to financial statements (continued)

18 Cash flow statement - supporting analyses (continued)

c) Analysis of net debt

	At 1 July 1996	Cash flow	Exchange movements	At 30 June 1997
	£	£	£	£
Cash in bank and in hand	1,200,145	501,703	-	1,701,848
Debt	(38,721,813)	-	(48,590)	(38,770,403)
Finance leases	(155,037)	22,491	-	(132,546)
	<u>(37,676,705)</u>	<u>524,194</u>	<u>(48,590)</u>	<u>37,201,101</u>

During the year the company entered into finance lease arrangement with a total capital value at the inception of the leases of £51,527.

19 Guarantees and other financial commitments

a) Capital commitments

At the end of the year, capital commitments were:

	1997	1996
	£	£
Contracted for but not provided for	<u>117,388</u>	<u>42,578</u>

b) Lease commitments

The company has entered into non-cancellable leases in respect of property, plant and equipment, the payments for which extend over a period of up to 7 years.

The minimum annual rentals under the foregoing leases are as follows:

	1997	1996
	£	£
Operating leases which expire		
- within 1 year	35,690	18,723
- within 2-5 years	11,925	43,258
- after 5 years	9,978	7,072
	<u>57,593</u>	<u>69,053</u>

Notes to financial statements (continued)

19 Guarantees and other financial commitments (continued)

c) *Pension arrangements*

The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, being invested by independent fund managers.

Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of valuations using the attained age method.

The most recent valuation was at 1 January 1997. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 8% per annum, that salary increases would average 6% per annum and that present and future pensions would increase at the rate of 4% per annum.

The pension charge for the year was £111,612 (1996 - £89,000). This included a credit of £25,700 (1996 - £7,500) in respect of the amortisation of surpluses that are being recognised over 10 years, the average remaining service lives of employees.

The most recent actuarial valuation showed that the market value of the scheme's assets was £1,977,098 and that the actuarial value of those assets represented 111.5% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contributions of the company and employees were 17.4% and 9.3% respectively during the year.

d) *Contingent Liability*

The company is named as a joint defendant in a legal suit filed by Golf Holdings Inc in Los Angeles, California. The directors are of the opinion that no costs will arise in Nitto World Co., Limited as a result of this action and accordingly no provision has been made in these accounts for any such costs.

20 Related party transactions

During the year the company entered into transactions with a number of related parties. All were on an arms length basis. Information relating to these transactions is summarised below:

<u>Party</u>	<u>Nature of relationship</u>	<u>Transaction</u>	<u>Value (£)</u>
Nitto Kogyo Co., Ltd	Intermediate parent	Sales	6,742
Nitto Albion Co., Ltd	Group undertaking	Sales	860
Nitto Kogyo Co., Ltd	Intermediate parent	Loan received	(10,759,935)

The company has various other intercompany loans payable and receivable. These were in existence at the start of the year and are detailed in notes 12 and 13 to the financial statements. The only movement in these loans relates to foreign exchange movements.

Notes to financial statements (continued)

21 Ultimate parent company

The ultimate parent company is Nitto Sogo Co., Limited, a company incorporated in Japan.

The smallest and largest group in which the results of Nitto World Co., Limited are consolidated, is that headed by Nitto Sogo Co., Limited. The consolidated accounts of this group are not available to the public.